

DRAFT OP-ED
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Tax Scheme: Wrong Policy at Wrong Time

By Haley Barbour
Governor

I vetoed the cigarette tax/grocery tax bill for a number of reasons. Primary among them is my belief it would be irresponsible to set up a new scheme that reduces funding to state and local governments in this period of fiscal uncertainty caused by Hurricane Katrina.

Under Senate Bill 2310, the state would suffer a revenue loss of \$1.5 billion over nine years (an average loss of nearly \$170 million per year), and, in a dangerous shortcoming, the bill would have cut tax revenues to municipalities by \$166 million over nine years. Inevitably, such a loss would lead to lower funding for education and basic services as well as to tax increases, which could range from municipal ad valorem taxes to sales taxes on products other than groceries to higher income taxes.

Supporters of this legislation should have taken a more detailed look at SB 2310's implications before rushing it to passage in such a hasty manner. They denied this bill the proper research that might have exposed its faults and, as a result, had to concede in even the limited debate allowed that some of the information presented was just plain wrong.

My analysis found that SB 2310 is anything but “revenue neutral.” It proposed a new structure, seeking to replace the sales tax on groceries – which would generate more revenue over time for cities and towns – with an increase in the tax on tobacco – which will generate less revenue over time. Any increased revenue from a higher tax on tobacco will not come close to offsetting the decreased revenue from reducing the grocery tax. Since the cities and the state split the revenue from the grocery tax, this will be devastating to both the state budget and to towns which depend on those funds to maintain basic functions of government, such as fire and police protection.

On a larger scale, just two years ago the state had a more than \$700 million budget hole. As we worked together to dig out of the hole, there were cuts in government services; for example, higher education was cut, and some have argued that K-12 spending increases were not enough. A \$1.5 billion reduction in state revenue will make it impossible to restore the cuts to higher education and give even larger increases to K-12 education. Then, just as we had almost gotten back to a balanced budget, Katrina struck, leaving much uncertainty about tax revenues and future budget needs as South Mississippi is rebuilt.

The legislation takes away the anticipated and historical growth in revenue by capping the refund to cities at what they receive currently. When a historical rate of growth is applied, municipalities will lose an estimated \$166 million in future revenue over nine years as the legislation is implemented. At that point, cities will be losing more than \$40 million a year.

When legislators voted for this proposal, they were told that cities and towns were protected from a loss of revenue. However, according to the Mississippi Tax Commission, the original estimate of the amount of grocery tax collected in municipalities was incorrect, likely by 20 percent. Therefore, even the proposed fund set up to reimburse the municipalities is not funded at a high enough level in the legislation.

Even if that estimate were corrected, it demonstrates the lack of information on which this proposal was based. The Tax Commission does not know how much revenue is collected each year from grocery taxes. The estimate is \$345 million for the current fiscal year, but that is nothing more than an educated guess. If that estimate is wrong, all the estimates on the impact on municipalities and the state General Fund are wrong, and the negative impact will likely be more than what was described to legislators.

The Tax Commission estimate of potential new revenue from an increased tax on cigarettes did not take into account the reduction in smoking which is

occurring both in Mississippi and across the nation. This will further reduce the new revenue from this higher tax.

Increasing the cigarette tax by 455 percent would give Mississippi the highest cigarette tax of all our surrounding states. This would inevitably lead to bootlegging of cigarettes across state lines and would entice more people to purchase cigarettes from the Choctaws, which are not taxable. The Tax Commission estimate on potential new revenue from an increased tax on cigarettes did not take either of these likely effects into account, and both would reduce the new revenue from the higher tax.

Overall, SB 2310 was an irresponsible proposal that came at a time of uncertainty. It would have blown a new hole in the state budget just as we are plugging the old one. It was a scheme that would make it harder for towns and cities to provide basic services. Legislators did not have the opportunity to get all of the information they needed before voting, and it would seriously damage smaller towns, where grocery sales are a greater portion of total sales tax revenue.

Ultimately, the approach offered in Senate Bill 2310 was just the wrong policy at the wrong time.

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